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SCIENTIFIC APPROACHES TO DEFINING THE ASSET PRICES ROLE FOR THE PRICE AND FINANCIAL STABILITY MAINTAINING

Valerii I. OGIIENKO
Candidate of Science in Economics, Associate Professor, Director of Sevastopol Institute of Banking of the University of Banking of the National Bank of Ukraine (Kyiv)

Oleg V. LUNIAKOV
Candidate of Science in Economics, Associate Professor of the Department of Finance and Credit of Sevastopol Institute of Banking of the University of Banking of the National Bank of Ukraine (Kyiv)

Summary. The alternate views to taking into account the asset prices in the formulation of the objectives of the monetary policy to achieve price and financial stability have been shown in the article. The change of monetary policy strategy depending on the cycle of the financial sector development has been substantiated.

Key words: *monetary policy, financial sector, financial imbalances, asset prices.*

Analyzing foreign countries experience, it should be stated that the monetary policy goals are quite different. In particular, in the USA the ultimate aim of monetary policy is to promote a high level of employment, price stability, predictable and moderate interest rates. In Canada, monetary policy aims are to promote economic development and improve people's lives by providing low, stable, and predictable inflation, and in Europe – to support price stability, high employment and sustainable non-inflationary growth.

Turning to the consequences of 2008–2009 financial crises, it must be emphasized that the full implementation of inflation targeting regime has not defended Ukraine, like many developed countries, from endogenous accumulation of financial imbalances that were distributed in the financial sector. The «cheap money» policy had an economic growth effect only a certain period of time, following a slowdown of real GDP growth was offset by faster growth rates of return on real estate and financial markets, which further led to a speculative component in the dynamics of asset prices and the manifestation of pro-cyclicality of the financial economy sector.

A wide range of discussions on the monetary policy impact on price and financial stability, as well as understanding the feasibility of incorporation of asset price dynamics in its implementation, demonstrates a lack of consensus to address these issues and further researches of the question are needed.

Ensuring price and financial stability requires addressing to a number of issues:

- adequacy of Central Banks monetary policy degree in regard to fluctuations in asset prices;
- how important the traditional inflation index (Consumer Price Index or CPI) is under the central banks mandate to ensure price stability;
- how should monetary policy be built to provide price and financial stability support, and thus to minimize the imbalance that may occur in the financial sector.

Two scientific approaches to determine the asset prices role are outlined in the banking theory and practice, which we inextricably associate with financial imbalances regulating.

I. Orthodox approach to the asset prices role defining. In its strong version the orthodox view is revealed in the fact that price stability is a sufficient condition for financial stability. Retrospective economy analysis of such countries as the USA, Canada and the UK, has shown that price volatility had a destabilizing effect. At the same time, the economy of some countries had some precedents (USA in the late XIX – early XX century), when the banking panic occurred in conditions of price stability.

A more moderate version of the orthodox viewpoint has more supporters, especially among Central Banks. The problem is that Central Banks should respond to the financial imbalances, which are accompanied by strong deviations of asset prices only if the fluctuations of asset prices may affect the projected consumer price inflation in the framework of the classical channel of the transmission mechanism.

In 2000, "Fed" (Federal Reserve System) in shaping technology "bubble" has adopted the strategy of so-called "mop-up-after", which was called the "Greenspan doctrine". According to the doctrine mentioned "Fed" did not restrain the accumulation of price distortions, allowing the technology "bubble burst". The USA economy did not suffer much and got out of the recession quite quickly. Financial assets prices fluctuations are accounted by central banks in the implementation of monetary policy only to the extent to which these fluctuations affect the monetary policy goals (e.g. price stability).

Considering the monetary transmission mechanism "weakness", regulation of the financial sector on the orthodox approach basis creates a soft or neutral monetary policy with regard to financial imbalances.

II. Heterodox approach to defining the asset prices role. According to this approach, the asset prices role is significant in the formulating objectives by central banks and creates a high degree of discretion in the monetary policy implementation. Asset price dynamics management is a separate task of central banks. While an extraordinary asset prices fluctuation, changing inflationary expectations of economic agents that further may prevent consumer price index from its targeting level. An example of asset prices incorporation in the process of prudential supervision is the "Financial Condition Index".

Within the "lighted" version of heterodox approach the principle "leaning against the wind" is distinguished, it suggests a cautious increase in interest rates, even when negative shocks increase in asset prices are not detected, but that could potentially affect the price stability in the short and medium term. Under the principle of "leaning against the wind" Central Bank must conduct a tougher monetary policy to ensure price stability over the long term and prevent the extraordinary growth of asset prices and the accumulation of imbalances in the financial sector. This policy of the central bank aims to keep the current level of price stability.

Asset prices gaps analysis, credit gap and consumer inflation level as an example of Ukrainian economy let us formulate these conclusions:

- unusual deviations of asset prices (stocks, real estate) from their long-term trends began to emerge around 2004, i.e. 4 years before the crisis in Ukraine;
- consumer inflation rate in this period (2004–2005) had no significant difference;
- with the beginning of the formation of "bubbles" in the stock market and real estate market in Ukraine's economy gradually began to accumulate imbalances in the financial sector (including credit imbalances);
- consumer inflation index began to rise significantly since 2006, correlating with the credit cycle;
- asset prices stimulated a growing imbalance in the financial sector of the economy (evident in the gap on the volume, timing, source attracting / allocation of financial resources), which further increased the speculative component in asset prices dynamics;
- asset prices can be considered as indicators of financial stress and be a subject to prudential monetary authorities in terms that their extraordinary dynamics is not related to fundamental factors (technological shocks).

To ensure sustainable economic growth and to minimize the effects of periodic economic downturns, central banks need to understand the reasons for the rise in assets prices. If the increase in asset prices is based on the fundamental components (technology shocks), which in turn can lead to extraordinary stock indexes growth, it would be wise for the monetary authorities to use Greenspan-Bernanke («mop-up-after») strategy. On the other hand, if while some time continuum a speculative component appears as a driver of further asset prices growth stimulating, which increases credit bums, monetary authorities should assess the feasibility of applying the «leaning against the wind» strategy, using both traditional monetary and macro-prudential instruments. Thus the effectiveness of the central bank depends on the level of its mandate, political independence level, monetary consistency and budgetary-fiscal policy, public confidence in the monetary decisions and other objective factors.

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